How the Government Grant Process Can Stifle Innovation and How To Fix It

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STIFLE

Part 1: Recognizing the problem

The problem is easy to recognize.

Step one: Does your City, State or Federal group offer a grant program, application-based funding program or other program which gives tax dollars to outside entities?

Step two: Have you had this, or a similar program, in operation for more than a year?

Step three: When you line up a list (**LIST A**) of the past "winners" alongside a list (**LIST B**) of their campaign contributions, lobbying expenditures, gifts and incentives; are the curves of each of those lists "strangely" the same?

If the answer is **Yes**: THEN YOU HAVE **THE** PROBLEM!

Part 2: The General Process Issues

Over 30 "green", "cleantech" companies were put out of business by the DOE ATVM/LGP program.

Many more companies, in each state, were terminated by the "efforts" of the officials of those states. Some were intentional terminations because they competed with contributor's business interests and some were terminations caused by mismanagement of the grant process.

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Most grant programs ostensibly seek innovation and better solutions.

BUT: Most "winning applicants" end up being big old companies who supply the same old thing who generally usually "win" the "contests".

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True innovators are scientists, chemists, physicists and engineers. They do not know about, have the skills for or have the aptitude for generating political documents.

BUT: Big old campaign contributor companies have rooms full of grant writers and spin doctors who can conveyor-belt out, political grant document-after-grant document, with all of the checklist items in carefully mnemonically metricized catch-phrases, but they offer no innovation.

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Big campaign contributor "winners" have big teams of people that go around and "work the system" (promise or imply incentives). These teams are smiley, golden-ratio faced, out-going personality-type PR people.

BUT: True innovator scientists, chemists, physicists and engineers are, more often than not, socially awkward and uncomfortable with that sort of PR pretension and they avoid working the system.

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If one wants to pay off campaign contributors then these "contests"/"grant programs" they actually are a great way to provide "kickbacks in plain sight".

BUT: In the age of the Everybody-Can-See-Everything internet, the public is now pretty much aware that this is what is going on, ie:

http://www.youtube.com/watch?v=CHiicN0Kg10

http://youtu.be/CHiicN0Kg10

Reality:

If a City, State, Federal or NGO group wants true innovation solutions to public problems and issues, then they need to recognize that their grant programs, award programs and public funding programs are, in most cases, set-up to accomplish exactly the opposite!

The Solutions- Part 1

Go to greater lengths to find the small innovators and let them know about the program. Sending a general email out to "the usual suspects" doesn't cut it.

1. Provide a dedicated small innovator advocate, in each funding program who is missioned to assist the small innovator companies. Make them call, and email, each one personally.
2. Fire that advocate if more than 3 small business groups prove that they are compromised.
3. For any applicant with less than 10 staff, YOU, verbally interview them and fill out the forms for them. They do not have the staff to do it. You place them in a "no win" situation by even offering these grant opportunities, they all know it by now and so almost none of them apply any more unless they just formed their company. After the first burn, when they realize the cards are stacked against them, they won't waste their time again.
4. Make the application as simple as possible. One of the richest people in the world: Bill Gates, and his wife Melinda, decided to give away quite a lot of money in grants. They had

the resources to test, validate and prove what the best kind of grant application is. What did they figure out for the Grand Challenge: That they just needed a TWO PAGE APPLICATION. They have used this for years, it works great and has funded some of the greatest innovations in the world.

5. Announce who your reviewers are, by name and affiliation. Just like the law now requires for financial writers. State ANY positions your reviewers have in any companies related to the industry involved in the grant.

6. Post the reviewer results online. Allow the transparency to have their assumptions, or comments challenged to prove the game isn't rigged.

7. Does the world seem to be in disarray? Does every news cycle seem like there are more and more problems and more and more people complaining? IT ISN'T TRUE! The same amount of disarray and problems exist today as have existed over the last few centuries. BUT NOW EVERY VOTER CAN SEE EVERYTHING. While the internet has brought us awful things like cyber-bullying child suicides and the hacking of everything, it has created a transparency that will never go away. The toothpaste is out of the tube. Organizations need to accept the fact that corruption only works in darkness and the internet has lit up everything. If old systems of reward exist to pay back donors, it can now be found out by a bored soccer mom or an out of work construction worker with a notebook computer, and there are millions of them. Change up any systems that could be rigged because we live in an age where those sorts of things can come back and bite you during your current career cycle. The FBI is much tougher on these sorts of things these days.

8. News Media now have databases equal to those of the NSA. New online media outlets have been starting up in great quantities, lately, using "big data" story research engines. They can track every connection of every applicant, executive and associate and other party in a very short period of time. Just read the detail they have gone into about CGI Federal, the company that screwed up Obamacare, and their staff, ownerships, personal relations, etc. Plan on transparency in the new world. It has arrived.

9. To repeat, however efficiently you think your application is written: **YOUR APPLICATION PAPERWORK IS TOO LONG**. The DOE spent more money and resources on due diligence and had more application paperwork for their ATVM/LG and other loan programs THAN ANY COUNTRY HAD DEVOTED IN HUMAN HISTORY! Yet we had the stunning failures of Abound, A123, Fisker, Solyndra, etc.. etc…

10. Hold three online web conference for 1.) Under 10 person companies 2.) Under 20 person companies 3.) The big guys. Give each segment a chance to comment, ask questions and get informed within their peer group.

11. Publicly identify revolving door staff.

12. Allow for a challenge process for any member of the media or applicant groups to challenge a decision and correct, or comment on, erroneous data.

13. Don't rig the stock market or investor market by setting up financing that makes your organization cause outside investors to wait until they see your term sheet like DOE did.

14. Provide a CrowdFunding support resource in all new funding from now, forward. The SEC has made CrowdFunding fully legal now. Allow Crowdfunded offsets and co-promote them using your agency PR resources.

15. Don't use the "delayed review" tactic to try to put contributors competitors out of business by stringing them along until they run out of cash. The media has covered this tactic in great detail and new laws allow those who got strung out to sue you and win if they catch you.. and it is easier to catch people these days.

16. More Solutions coming...

One Perspective- Siry

"Siry Slams DOE Loan Program For "Stifling Innovation"

By Edward Niedermeyer on December 1, 2009 in "THE TRUTH ABOUT CARS"

Former Tesla PR honcho Daryl Siry lays into the Department of Energy's Advanced Technology Vehicle Manufacturing Loan program (ATVML) at Wired's Autopia blog, taking the $25b program to task for "stifling innovation." At its core, his argument is a simple one:

Startup companies that enjoy DOE support, most notably Tesla Motors and Fisker Automotive, have an extraordinary advantage over potential competitors since they have secured access to capital on very cheap terms. The magnitude of this advantage puts the DOE in the role of kingmaker with the power to vault a small startup with no product on the market — as is the case with Fisker — into a potential global player on the back of government financial support.

As a result, the vibrant and competitive market for ideas chasing venture capital that has been the engine of innovation for decades in the United States is being subordinated to the judgments and political inclinations of a government bureaucracy that has never before wielded such market power.

All of which sounds very TTAC… in fact, our lengthy Bailout Watch series began with a similar analysis of the ATVML program (albeit with a Detroit-focused twist). Unfortunately, Siry's intentions in this case are questionable… as are his conclusions.

At the very bottom of his editorial, Siry reveals himself to be a "special advisor to Coda Automotive," the EV startup born from the ashes of Miles Electric Vehicles. That Coda has not sought an ATVML handout (because all its manufacturing is done in China) is presumed to give Siry a free pass on conflict-of-interest questions, but Siry's critique relates directly to the private capital market as well. Siry writes:

The proposition is so irresistible that any reasonable person would prefer to back a company that has received a DOE loan or grant than a company that has not. It is this distortion of the market for private capital that will have a stifling effect on innovation, as private capital chases fewer deals and companies that do not have government backing have a harder time attracting private capital. This doesn't mean deals won't get done outside of the energy department's umbrella, but it means fewer deals will be done and at worse terms.

Translation: Coda can't raise funds without DOE backing, a reality the company petulantly hinted at in the most recent post on its corporate blog. There, the company lashed out at analyst suggestions that DOE loans would be best spent on established automakers, and now Siry is bashing the DOE's "kingmaking" of "small startups with no product on the market." So which is it? The answer can be found in Siry's conclusion:

A potential solution to this problem may seem counter-intuitive. The best way to avoid market distortion would be for the DOE to cast the net more broadly and provide loans and grants to a larger number of companies — which ironically means being less selective. Subject to the existing equity matching requirement, this would allow the private markets to function more effectively in funding a broader range of companies and driving more innovation. Several innovative companies with great potential have been in the DOE pipeline for many months. Perhaps it is time for the DOE to stop playing favorites and start spreading the love.

Give out money to more firms, less selectively. What a plan. But if Siry is suggesting that Coda Automotive represents the kind of "innovation" being "stifled" by the ATVML program, he's able to see far more innovation in selling an electrified Chinese Hafei sedan with 100 miles of range for $45k than we do (he doesn't explicitly, preferring Aptera as a poster child for stifled innovation). The reality is that the EV sector is crammed with as many hucksters and wannabes as legitimate innovators, and "spreading the love" is more likely to result in wasted investments. In theory we agree that DOE "kingmaking" distorts the market, and elevated some questionable firms to near-player status… but interpreting those results as a reason for the DOE to be "less selective" with its lending makes even less sense. Unless, of course, you work for a firm that might benefit from lowered loan standards.

As a lesson in the ATVML's unintended consequences, Siry's editorial is dead-on. As a roadmap for future DOE policy, however, it comes up way short.

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Tagged as ATVML, Coda, DOE, electric car, EV, Fisker, Tesla "